PLANTATION

***Maintain* NEUTRAL**

Russia-Ukraine war development

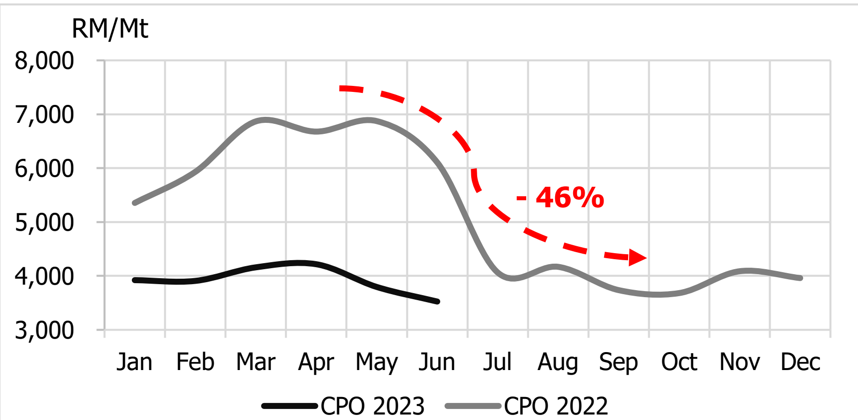
KEY INVESTMENT HIGHLIGHTS

- **Russia withdraw from the grain deal**
- **More strikes followed overnight from Wednesday**
- **But CPO prices to coming-off following bump in supply side eg. Indonesia, Malaysia PO & Ukraine amidst sluggish demand in major importing countries**
- **Maintain NEUTRAL on the sector**

CPO price. On monthly basis, we initially anticipate July's average CPO price to be coming off by -7.5%mom. However, following the renewal development of Russian withdrawal on the grain deal, CPO price saw some support, hinged on the high side, apart from ongoing El-Nino event effects. As of July, CPO price averaged at RM3,845/tonne (-10.6%yoy, -35.6%ytd). While we foresee the intensity of the war could support the CPO price to hover around RM3,600-4,200 level, we reiterate our expectation that the price should be coming off following high crop seasonality in upcoming months *(Chart 1)*. In fact, narrowing spread of USD89.7Mt between SBO in 2QCY23 is now at the lowest point since 2QCY20, signaling the erosion of the price competitiveness between its major rival is tightened *(Chart 2)*.

In our **best-case scenario**, for the price to spike and stay above RM4,500/tonne in remaining of the months, this would require Russia to fully seize Ukraine, but it appears that would not be the case given that in Nov-22, Ukraine was able to regain it ground in Sumy, Kharkiv and Kherson areas (high production area). A year since the invasion, the most recent counter-offensive saw Ukrainian regaining c. 253 square kilometers, an area that Russia had been marching across for the previous 6 months *(Exhibit 3)*. Additionally, since 58% of national production (highest production area) is back to Ukrainian territory *(Exhibit 5)*, we are not convinced that recent developments is enticing enough for CPO prices to hover around RM4,500-RM5,000/tonne level.

Chart 1: CPO local delivery price movement thus far



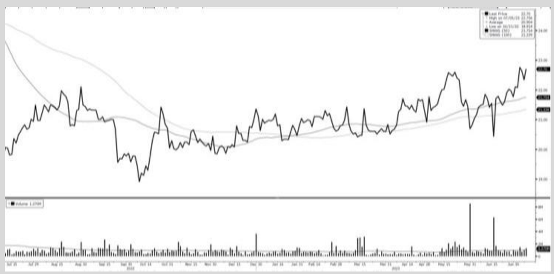
Source: MPOB, MIDFR

COMPANY IN FOCUS

Kuala Lumpur Kepong
Maintain **BUY |** Unchanged Target price: RM26.00
Price @ 20th July 2023: RM22.70

- We like KLK for its efficiency as it the most efficient planter with highest oil yield of 4.7/ha. It also has the highest FFB yield/mature of 21.4/ha among peers.
- In addition, post IJM acquisition has increased its total landbank in Malaysia and Indonesia by 73,827 ha to 279,037 ha, around 66,503 (24%) young mature coming into maturity ahead.

Share price chart



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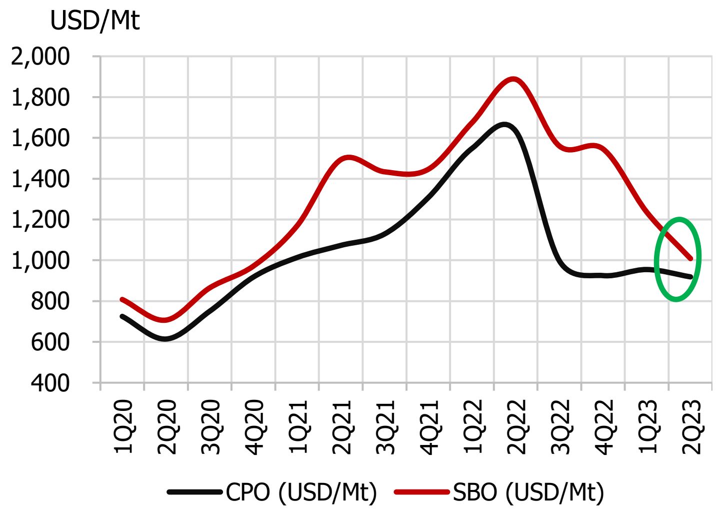
Other export routes. Despite the targeted grain terminal and port infrastructure along the Black Sea coast is at a risk, there are other alternative routes. We opine that Ukraine's harvested crop can still be transported through mainland routes eg. Romania, Poland and Lithuania.

Demand. On the demand side, our PO exports saw inconsequential demand in June to 1.2 tonne (+8.6%mom, - 1.9%yoy, -1.3%ytd) following narrowed premium discount against SBO in 2Q23. As to-date basis, PO closing stocks in major importing countries are still on the high side, such as India (+76.6%ytd), China (+100%ytd), Pakistan (+69.8%ytd) and Bangladesh (>100%ytd). This was mainly due to higher carryin supplies from increased imports in the prior marketing year, hence, demand anticipated would be sluggish in 2HCY23 on no festival ahead *(Chart 3)*.

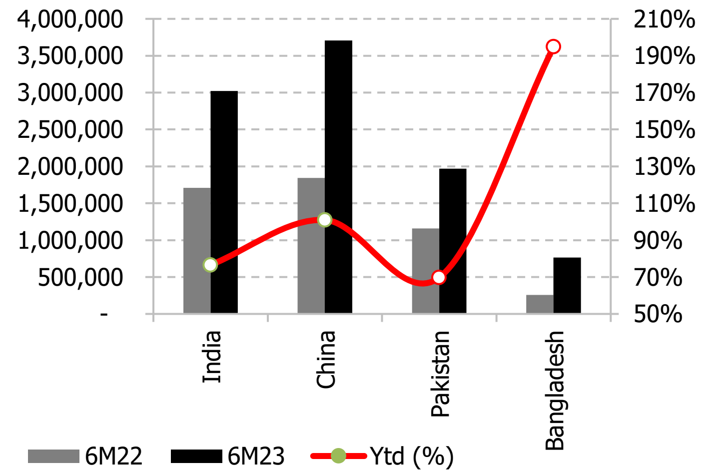
Maintain NEUTRAL on the sector**.** Overall, we will see earnings of plantation companies to stay sideline in 2HCY23 due normalisation of CPO price following weaker demand in major importing countries. A key downside risk for CPO price remains: 1) fragile demand outlook on the back inflationary pressure coupled with tight household spending on high base interest rate locally and globally 2) narrowed price discount parity between CPO against SBO which averaged at USD89.7Mt (-65%yoy) in 2Q23. In a nutshell, we are neutral on earnings outlook for plantation in CY23 as we think that the recent development would only provide short-term price rally in the vegetable oils market. Despite the onging conflict, planted and harvested area of sunflower in Ukraine is actually anticipated to increase by +2%yoy and +5%yoy for CY23, according to USDA's July-23 report.

Chart 2: Narrowed spread between CPO Vs SBO price



Source: MIDFR

Chart 3: Closing Stocks for major importing countries



Source: MIDFR

Exhibit 1: Feb 2022; Before the invasion

Source: Institute for the study of war, MIDFR

Exhibit 2: March 2022; Russia's rapid advance

Source: Institute for the study of war, MIDFR

Exhibit 3: Nov 2022; Ukraine regains ground

Source: Institute for the study of war, MIDFR

Exhibit 4: Jun 2023; Ukraine advances

Source: Institute for the study of war, MIDFR

Exhibit 5: 58% of national production is back to Ukrainian territory

Source: USDA, MIDFR

Table 2: Summary of earnings, TP and recommendations

Stocks	Rec.	Price @	Tgt Price (RM)	Core EPS (sen)		PE (x)		Net DPS (sen)		Div Yield (%)	
		20-Jul-23		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Kuala Lumpur Kepong	BUY	22.70	26.00	141.1	81.6	16.1	27.8	70.0	50.0	3.1	2.2
IOI Corporation	BUY	3.99	4.89	16.0	14.8	24.9	27.0	12.0	10.5	3.0	2.6
PPB Group	BUY	16.14	19.00	114.9	98.8	14.0	16.3	40.0	40.0	2.5	2.5
Sarawak Plantation	NEUTRAL	2.14	2.20	27.2	23.9	7.9	9.0	2.0	1.0	0.9	0.5
Sime Darby Plantation	NEUTRAL	4.40	4.10	13.7	16.4	32.1	26.8	7.5	10.0	1.7	2.3
Genting Plantation	NEUTRAL	5.88	6.16	34.1	32.7	17.2	18.0	27.0	25.0	4.6	4.3
Ta Ann Holdings	NEUTRAL	23.59	3.27	36.3	29.0	9.9	12.4	15.0	15.0	4.2	4.2
TSH Resources	NEUTRAL	0.98	1.01	9.2	7.9	10.6	12.3	1.5	2.0	1.5	2.1
FGV Holdings	NEUTRAL	1.38	1.38	17.2	15.0	8.0	9.2	5.0	3.0	3.6	2.2

Source: MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology